

An Analysis of Government Revenue and Expenditures in HCMC and Vietnam

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To balance the government budget for macroeconomic stabilization and fulfillment of socio-economic targets is a key task for each country. In recent years, Vietnam has reformed its economy and recorded promising achievements and deeply integrated in the world economy. Its good fiscal policies are highly appreciated and gain confidence of international investors and donors. When joining the WTO, Vietnam must reduce tariff in accordance with its commitments. This will cause a decline in its government revenue from certain sectors while the Government still has to maintain essential expenditures on



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socio-economic development needs. How can the country solve the budget balancing problem? The article aims at considering the trends

in HCMC government revenue and expenditures in comparison with the whole country to estimate the decline in revenue and seek

measures to compensate the loss due to tariff reduction.

I. Facts of Vietnam and HCMC government revenue

Table 1: Government revenue in HCMC and Vietnam from 1990 to 2006 (VNDbil.)

Year	HCMC	Vietnam				
	GDP (VNDbil.)	Government revenue (VNDbil.)	Revenue/GDP (%)	GDP (VNDbil.)	Government revenue excluding aids (VNDbil.)	Revenue/GDP (%)
1990	6,770	1,399	20.7	41,955		
1991	13,388	2,275	17.0	76,707	9,844	12.8
1992	18,587	4,946	26.6	110,532		
1993	23,722	7,394	31.2	140,258	28,550	20.4
1994	28,271	12,264	43.4	178,534		
1995	38,810	16,419	42.3	228,892	47,267	20.7
1996	47,243	19,576	41.4	272,036	58,947	21.7
1997	52,765	20,537	38.9	313,623		
1998	61,226	23,788	38.9	361,017		
1999	69,002	26,564	38.5	399,942	75,357	17.8
2000	75,862	26,074	34.4	441,646	87,883	19.9
2001	84,852	30,732	36.2	481,295	95,000	21.3
alpha2002	96,403	36,902	38.3	535,762	102,530	21.5
2003	113,326	41,640	36.7	613,443		
um2004	137,087	48,973	35.7	715,307	180,397	22.8
2005	169,559	60,487	35.7	839,211	197,568	22.8
um2006	191,011	69,395	36.3	973,790	225,167	21.9

Table 2: Structure of HCMC government revenue (2002-2006)

	Year	2002	2003	2004	2005	2006
	Total revenue (VND bil.)	37,402.0	43,440.1	49,997.9	59,857.8	69,439.4
	%	100.0	100.0	100.0	100.0	100.0
1	Customs duties (%)	44.3	38.5	38.2	36.4	37.8
2	Domestic revenue (%)	54.2	57.2	53.8	53.9	53.0
2.1	By sector (%)					
2.1.1	Central government	13.1	13.4	12.0	11.3	10.0
2.1.2	Local government	6.2	5.9	5.5	5.9	5.5
2.1.3	Foreign invested	7.0	8.2	10.3	10.3	9.7
2.1.4	Non-state	7.7	8.6	9.2	9.4	10.4
2.1.5	Others	20.2	21.1	16.8	17.0	17.4
2.2	By taxes and others (%)					
2.2.1	Capital utilization	0.3	0.1	0.1	0.1	0.1
2.2.2	License tax	0.2	0.4	0.3	0.2	0.2
2.2.3	Excise tax	10.9	10.7	10.2	9.6	8.8
2.2.4	Value-added tax	10.6	11.5	13.0	13.7	13.6
2.2.5	Corporate income tax	10.8	12.5	12.9	12.3	12.6
2.2.6	After-tax income	0.4	0.4	0.2	0.0	0.0
2.2.7	Personal income tax	2.7	3.0	3.2	3.1	3.2
2.2.8	Farm tax	0.0	0.0	0.0	0.0	0.0
2.2.9	Real property tax	0.2	0.1	0.2	0.1	0.1
2.2.10	Fees and communication fees	3.8	4.0	3.3	2.6	2.4
2.2.11	Lottery	0.9	0.9	0.8	0.9	0.9
2.2.12	Land use fees, land rent	3.4	4.8	5.3	4.0	3.2
2.2.13	Sales of state-owned houses	1.6	0.8	0.7	0.4	0.9
2.2.14	Registration fee	1.1	1.3	1.5	1.4	1.3
2.2.15	Others	7.4	6.7	2.2	5.4	5.7
3	Sales of crude oil (%)	-	-	2.7	9.6	9.2
4	Non-refundable aids (%)	0.2	0.2	0.2	...	0.0
5	Loans (%)	1.3	4.1	5.1

Source: HCMC Statistics Yearbook 2006

The Vietnam economy has recorded high growth rates over the past 15 years thanks to great contributions from the Southern Key Economic Region including HCMC as a nucleus. HCMC has generated large revenue to the Treasury and attracted huge amounts of private investment capital for development of the city and surrounding provinces.

The city growth rate is always higher than the country's, so its contribution to the national

GDP is increasing over year from 13.63% in 1990, to 16.67% in 1995, 19.28% in 2000 and 22.61% in 2005.

The picture of Vietnam and HCMC government revenue is indicated in the following table. The revenue of Vietnam and HCMC increased substantially over the past years. Especially HCMC government revenue accounts for large percentage in the national budget from 22.74% in 1990, to over 30% in 2005 and 2006. The city revenue

tends to soar at high speed, at an annual average of more than 30% in the 1990-2006 period, and nearly 18% per year in the 2000-2006 period. Nevertheless, the ratio of revenue to GDP rose dramatically from 1994 to 1996, from over 20% in 1990 to more than 40% from 1994 to 1996, but it went down in the following years and stayed at 35%-36% over the past two years. This figure has an upward trend in recent years (see Table 1). The trends of revenue over

the past five years in HCMC and Vietnam are reflected in Figure 1, Table 2 and Table 3.

In Table 2, the revenue from export duty accounts for around 38% over the past 5 years though goes down slightly in two recent years. Domestic revenue still makes up a large share, some 53% and is rather kept stable in three years, but drops drastically in comparison with previous years. The ratio of crude oil revenue climbed from 2.7% in 2003 to 9.2% in

Table 3: Structure of government revenue in the 2000-2004 period (%)

	2000	2001	2002	2003	2004	2006
TOTAL REVENUE	100.0 0	100.00	100.00	100.00	100.00	100.00
Domestic revenue (excluding sales of crude oil)	50.95	50.68	51.29	51.67	54.77	52.6
From state-owned enterprises	21.70	22.28	20.24	18.88	16.85	
From foreign-invested businesses	5.22	5.49	5.87	6.53	7.91	
From non-state businesses	6.39	6.47	6.27	6.80	6.95	
Tax on use of farm land	1.96	0.78	0.62	0.10	0.07	
Personal income tax	2.02	1.98	1.89	1.94	1.84	
Registration fee	1.03	1.15	1.07	1.19	1.37	
Lottery	2.17	2.37	2.45	2.40	2.39	
Petroleum fee	2.41	2.44	2.42	2.10	1.88	
Fees and charges	2.99	2.49	2.44	2.15	2.19	
Land and housing	3.11	3.73	4.43	6.93	9.15	
Others	1.95	1.50	3.59	2.65	4.18	
Sales of crude oil	25.93	25.30	21.40	24.15	25.43	29.91
Customs duties	20.89	22.09	25.49	22.23	18.29	16.43
Customs duties, excise tax on imports	14.81	16.80	17.69	14.04	11.32	
Value-added tax on imports	5.94	5.17	7.66	8.10	6.94	
Tax on difference in imports prices	0.14	0.11	0.14	0.09	0.02	
Non-refundable aids	2.23	1.93	1.82	1.95	1.51	

Source: General Statistics Office, 2007

2006. The structure of revenue from customs duties of Vietnam drops while the figure of crude oil sales and domestic revenue tends to rise in recent years (Table 3).

In respect of economic sectors in HCMC, the structure of revenue from the state sector (central and local governments) declines, in contrast, there is a growth in the revenue shares of the foreign-invested and private sectors. Nevertheless, the state sector's contribution to the Treasury still makes up higher percentage than that of the private and foreign-invested sectors (15.5% against 10.4% and 9.7%

respectively in 2006) although the GDP share of the state sector is 33.3% in 2006, the pri-

vate sector 44.6% and the foreign-invested sector 22.1%. As a result, based on the reve-

nue contribution compared to GDP share, the state sector tops the list (15.5/33.3) followed by the foreign-invested sector (9.7/22.1) and the private sector (10.4/44.6). These figures have the same trend with those in the whole country.

In respect of taxes, three taxes raising large revenue in HCMC include value added tax, corporate income tax and excise tax. The percentage of revenue from value added tax and corporate income tax is increasing. The revenue from value added tax accounted for 10.6% of the total revenue in 2002 and rises to 13.6-13.7% in recent years. Similarly, the revenue from corporate income tax made up 10.8% of the total in 2002, and soared to 12.6% in 2006. In contrast, the revenue from excise tax ranked



Table 4: Structure of the central government revenue and expenditures

	Sources of revenue	2001	2001	2002	2003
1	Total revenue (VND bil.)	90,749	103,888	123,860	152,274
2	Structure (%)	100.0	100.0	100.0	100.0
2.1	Domestic revenue	50.95	50.68	51.29	51.67
	By sector				
2.1.1	State	21.70	22.28	20.24	18.88
2.1.2	Foreign-invested	5.22	5.49	5.87	6.53
2.1.3	Private	6.39	6.47	6.27	6.80
2.1.3	Personal income tax	2.02	1.98	1.89	1.94
2.1.3	Others (tax on farm land use, registration, fees...)	15.62	14.66	17.02	17.52
2.2	Sales of crude oil	25.93	25.30	21.40	24.15
2.3	Customs duties	20.89	22.08	25.49	22.23
2.4	Non-refundable aids	2.23	1.94	1.82	1.95
3	Total revenue/GDP (%)	20.5	21.4	22.7	23.1
4	Total expenditures (VND bil.)	108,961	129,773	148,208	181,183
5	Structure (%)	100.0	100.0	100.0	100.0
5.1	Development investment	27.19	31.00	30.51	32.91
5.2	Regular expenditures	56.74	55.14	52.66	52.77
5.3	Reserve fund	0.78	0.65	0.36	0.06
6	Total expenditures/GDP (%)	22.6	24.2	24.1	25.1

Source: Vietnam Statistics Yearbook 2005

third in the list of taxes but faced a downward trend from 10.9% in 2002 down to 8.8% in 2006. Some taxes and fees represent around 3% of total domestic revenue including charges of using land, land rent, communication fees, and personal income tax. The proportion of personal income tax shows an upward trend from 2.7% in 2002 to 3.2% in 2006, in contrast the share of revenue from land use charge, land rent and communication fee is going down (see Table 2).

The structure of Vietnam government revenue and expenditures in the 2000-2003 period is indicated in Table 4 below.

According to figures in Table 4, Vietnam's domestic revenue accounts for more than 51%, and the remaining 49% comes from crude oil export and customs duties. As compared to Vietnam, the structure of HCMC domestic revenue is 1-2% higher per annum. Therefore, there is no big gap in domestic revenue between HCMC and Vietnam.

II. Facts of HCMC and Vietnam government expenditures

The proportion of HCMC and Vietnam expenditures to GDP is shown in Table 5 below. The ratio of Vietnam is higher than that of HCMC. These ratios tend to increase sharply, thus cause in-

creasingly higher budget deficit. Nevertheless, the current deficit accounts for around 5% of GDP per annum if annual non-refundable aids from 2.5% to 2.7% of GDP are included.

According to rules in the current Law on State Budget, HCMC government is entitled to retain 100% of revenue from local sources including land use charge, land rent, registration fee and other fees. As a result, the city budget size and the expenditures proportion tend to soar significantly, especially high in 2005 and 2006 as compared to previous years (see Table 4 and Table 6. The city expenditures depend on local revenue. Table 8 re-

flects the trend of HCMC and Vietnam government expenditures as compared to GDP.

Table 6 indicates figures of revenue and expenditures structure of the local government. The city total expenditures include spending on budget balancing, reserve funds and others.

The expenditures on budget balancing often account for around 80% of total expenditures. It includes spending on development investment, regular needs, and repayment of principal and interest.

Expenditures on development investment always make up high percentage of the city total expenditures. Nevertheless, its percentage goes down in recent years, from 56.5 and 62.1% in 2002 and 2003 down to 43% in 2006. The reason for the decline is that the repayment of principal and interest soars significantly. The Vietnam's proportion of expenditures on development investment is currently 32%-33%. The HCMC needs for investment in infrastructures are higher than those of the whole country due to its large economic size and high growth rate.

The HCMC regular spending is lower than its spending on development investment, but its trend is not obvious (it fell in 2003 and 2004, but rose in 2005 and 2006). Although the ra-

Table 5: Government expenditures in HCMC and Vietnam

Năm	HCMC	Vietnam		
	GDP (VNDbil.)	Expenditures	Expenditures/ GDP (%)	Expenditures/GDP (%)
1990	6,770	388	5.7	15.8
1991	13,388	670	5.0	
1992	18,587	1,319	7.1	
1993	23,722	2,202	9.3	28.6
1994	28,271	2,350	8.3	
1995	38,810	2,677	6.9	27.4
1996	47,243	2,707	5.7	
1997	52,765	3,906	7.4	24.9
1998	61,226	3,948	6.4	
1999	69,002	4,424	6.4	24.0
2000	75,862	5,522	7.3	
2001	84,852	7,399	8.7	26.9
2002	96,403	9,373	9.7	
2003	113,326	13,099	11.6	29.1
2004	137,087	15,537	11.3	
2005	169,559	20,400	12.0	28.9
2006	191,011	22,422	11.7	

Source: HCMC Statistics Yearbook, General Statistics Office and Ministry of Finance

tio of HCMC regular spending to its total expenditures was more than 1% lower in 2006 as compared to 2002 (42.3% against 43.5%) but its size doubled that of 2002. The spending on development investment of Vietnam government accounts for around 30%, and regular spending ranges from 52% to 53% (see Table 7). HCMC has higher growth rate, so its ratio of spending on development investment is also higher than the national average.

The spending on education, health care and administration makes up large share of regular expenditures. The spending on education in 2006 is a little higher than that in 2002 (10.1% against 9.8% of local total expenditures), and it went down

drastically in 2004 (6.3%). The expenditures on health care had the same trend, high in 2002 (5.6%), down in three consecutive years (4% in 2004), then up to 5.8% of total local expenditures in 2006. Vietnam's spending on

education increases over years, currently accounting for 12% of total expenditures. As a result, the HCMC spending on education remains low as compared to the national expenditures on this sector while its spend-

ing on health care is higher than the national average because several hospitals serve not only the city residents but also surrounding provinces' (the Mekong Delta and the Southeastern region).

In contrast, the HCMC expenditures on administration soared over years, from 4.5% of total local expenditures in 2002, up to 6% in 2006. In respect of expenditures size, the growth of spending on administration is highest, 3.2 times in 2006 compared to 2002. Other expenditures also increased sharply in 2005 and 2006, 13% and 15% of total expenditures respectively. The country's spending on administration currently represents more than 6% to 7% of total expenditures. Therefore, the spending on administration of both



Table 6: HCMC government revenue and expenditures in the 2002-2006 period

	Indicator	2002	2003	2004	2005	2006
A	Total revenue (VNDbil.)	10,322.1	14,661.8	17,496.8	23,434.6	24,995.3
	Structure (%)	100.0	100.0	100.0	100.0	100.0
1	State	10.9	11.0	14.4	13.8	12.5
2	Private	7.4	9.2	8.3	7.5	9.0
3	Foreign-invested	5.0	5.9	8.6	7.7	8.1
4	Credit balance of last year	7.4	5.9	8.5	9.3	8.4
5	Subsidy of the central government	3.4	7.1	0.8	0.4	1.1
6	Others (rents, fees, charges ...)	65.9	60.8	59.4	61.2	60.9
B	Total expenditures (VNDbil.)	9,373.4	13,099.2	15,540.1	21,324.1	2,421.8
	Structure (%)	100.0	100.0	100.0	100.0	100.0
1	Balancing local budget	88.0	86.5	90.0	75.8	74.4
2	Reserve	12.0	13.5	9.9	10.5	10.3
3	Others	0	0	1.0	13.7	15.3
	Balancing local budget includes:					
1.1	Development investment (%)	56.5	62.1	46.2	55.4	43.0
1.2	Regular expenditures (%)	43.5	36.9	35.3	37.8	42.3
	Including (%):					
1.2.1	Education	9.8	9.0	6.3	8.9	10.1
1.2.2	Health care	5.6	4.7	4.0	4.4	5.8
1.2.3	Administration	4.5	3.7	5.1	5.6	6.0
1.2.4	Budgets of commune and wards	2.2	2.0
1.2.5	Others	21.2	17.5	19.9	18.9	20.4
1.3	Payment of principal and interest for loans (%)	0.0	1.1	18.5	6.8	14.7

Source: HCMC Statistics Yearbook 2006

Table 7: Structure of Vietnam government expenditures from 2000 to 2005 (%)

	2000	2001	2002	2003	2004	2005
TOTAL EXPENDITURES	100.00	100.00	100.00	100.00	100.00	100.00
On development investment	27.19	31.00	30.51	32.91	30.87	30.28
<i>Including: Capital construction</i>	24.06	27.85	27.49	30.04	28.83	
On socio-economic needs	56.74	55.14	52.66	52.77	50.42	54.22
<i>Including</i>						
Education and training	11.63	11.89	12.04	12.63	11.83	
Health care	3.17	3.24	3.14	2.96	2.81	
Family planning	0.51	0.33	0.57	0.37	0.19	
Science and environment	1.14	1.25	1.25	1.02	1.10	
Culture and information	0.84	0.71	0.72	0.69	0.74	
TV and radio broadcasting	0.66	0.65	0.46	0.58	0.62	
Sports	0.36	0.37	0.40	0.36	0.41	
Pension	9.86	10.34	8.92	9.08	8.07	
Economic needs	5.32	4.85	5.39	4.51	4.81	
Administration	7.42	6.73	5.80	6.27	7.42	
Reserve fund	0.78	0.65	0.36	0.06	0.04	

Source: General Statistics Office

Vietnam and HCMC government has an up-trend.

In short, the expenditures of Vietnam and

HCMC government have similar trends. Accordingly, the spending on development investment goes up and down

over years and accounts for 30% of total expenditures per year. The regular spending goes down, but rises at the

end of the period, and especially the expenditures on administration rises steeply. ■